



Treasury Inspector General for Tax Administration

THE FEDERAL TAX DEPOSIT ALERT PROGRAM HELPS TAXPAYERS COMPLY WITH PAYING TAXES, BUT ALERTS CAN BE WORKED MORE EFFECTIVELY

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Highlights

Highlights of Report Number: 2007-30-180 to the Internal Revenue Service Commissioner for the Small Business/Self-Employed Division.

IMPACT ON TAXPAYERS

The Federal Tax Deposit (FTD) Alert program (the Alert program) provides for early intervention by the Internal Revenue Service (IRS) when employers do not deposit and pay taxes withheld from employees. It identifies taxpayers that appear to be behind in making deposits of withholding taxes before their quarterly employment tax returns are due to be filed so the IRS can contact the identified taxpayers to resolve the underpayments. FTD Alerts serve the taxpayer's interest by involving the IRS before enforced collection action or bankruptcy becomes the sole remaining alternative for collecting the taxes owed.

WHY TIGTA DID THE AUDIT

This audit was initiated to determine the effectiveness of the Alert program criteria and case actions to bring taxpayers into compliance with paying taxes. The audit was conducted as part of the annual audit plan.

WHAT TIGTA FOUND

Although some management information, such as inventory received and disposed, hours charged, and productivity rates, is regularly captured for the Alert program, an analysis of whether taxpayers are more compliant subsequent to issuance of an Alert is not regularly performed. This type of analysis should be performed more frequently (the last research study was conducted in November 2005 based on data from the last quarter of Calendar Year 2003 and the first quarter of Calendar Year 2004) so the effect of working FTD Alerts is known.

Research of IRS guidelines showed those that reflect Alert program criteria need to be updated. Several reference document sources contain obsolete information and data based on the old Alert selection criteria. In addition, information displayed on the IRS

computer system that employees use for research does not contain the new Alert priority codes. Inaccurate information is being displayed, and employees could make incorrect assumptions about a taxpayer's account, such as thinking the taxpayer is accruing additional liabilities.

Lastly, our review of a judgmental sample of 50 FTD Alert cases showed revenue officers can improve their actions on cases by following the required procedures. Documentation in the case files showed that, in 25 of the 50 cases, revenue officers did not always contact the taxpayers within the required 15 calendar days, monitor current FTDs, inform taxpayers about potential penalties related to not depositing taxes on time, and/or inform taxpayers about potential enforcement action consequences.

WHAT TIGTA RECOMMENDED

TIGTA recommended the Director, Collection, periodically measure taxpayer compliance after contact on an FTD Alert, update IRS guidelines with the current Alert priority codes, and emphasize procedures and documentation requirements for working Alerts.

In their response to the report, IRS officials agreed with the report's recommendations. They plan to take adequate corrective actions that include sampling a group of taxpayers who have had FTD Alerts issued on their accounts and following their compliance for the two subsequent tax periods, revising IRS Processing Codes and Information (Document 6209) to reflect current Alert priority codes, submitting a request to the Modernization and Information Technology Services organization for a programming change that will reflect the current priority codes on the Master File, and developing training specific to Alerts for revenue officers.

READ THE FULL REPORT

To view the report, including the scope, methodology, and full IRS response, go to:

<http://www.treas.gov/tigta/auditreports/2007reports/200730180fr.pdf>.

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